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SUBJECT: UKRAINE: RADA ROLLS BACK UTILITY PRICES, BUT WILL IT
STICK?

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11. (SBU) Summary. The Verkhovna Rada (parliament) on September 22 overrode an April presidential veto to pass a law rolling back residential natural gas and electricity prices to January 1, 2006 levels and putting a moratorium on future increases. The law, if it comes into effect, would cancel summer price increases of 131% for residential gas and 56% for electricity. Prime Minister Viktor Yanukovych has asked the Rada to withdraw the September 22 law and said that his government would propose next month a "new mechanism" for utility pricing that would lower consumer prices. For state oil and gas company NaftoHaz, a Rada rollback or CabMin rate reduction would worsen its existing financial difficulties. End Summary.

Rada Overrides Veto; Rolls Back Utility Price Increases

12. (U) The Verkhovna Rada (parliament) on September 22 overrode a President Yushchenko April veto of a measure to roll back gas, electricity, and public transportation prices to January 1, 2006 levels and put a moratorium on future rate increases. The law stipulates that the moratorium would last until the GOU fully funds pensions and other social payments to the subsistence level. If it comes into effect, the law, would cancel summer residential price increases of 131% for gas and 56% for electricity. The law, submitted by Communist Party leader Petro Symonenko, passed the Rada on January 19, 2006. President Yushchenko vetoed the measure in April, saying the Rada had overstepped its constitutional mandate by trying to set prices. The Rada Economic Policy Committee resubmitted the vetoed law September 22, and the Rada overrode Yushchenko's veto with 340 of 444 parliamentarians present voting in favor.. Among those voting for the override were 183 of 188 Party of Regions MPs, 100 of 125 BYuT MPs, 30 of 33 Socialists, 20 of 21 Communists and only 4 of 80 Our Ukraine MPs.

Yanukovych Promises Slightly Lower Prices in October

13. (U) Prime Minister Yanukovych said on September 25 that the Cabinet of Ministers endorsed the Rada decision and would soon propose a new price mechanism for setting gas and electricity pricing that would include rate cuts for residences. Deputy Prime Minister Volodymyr Rybak, however, announced on September 28 that the Cabinet of Ministers wanted the Rada to withdraw its veto override, noting that Ukraine could not afford the 7.2 billion UAH (\$1.4 billion) necessary to fully fund the social expenditures mandated by the law. Rybak pledged that the government would find ways to cut utility rates. According to press reports, the Economy Ministry already has drafted a recommendation to the National Electricity Regulatory Commission to reduce domestic gas prices 18% for households (from 414 to 339 UAH/tcm) and 24% (from 658 to 498 UAH/tcm) for regional cogeneration plants.

14. (SBU) Comment. The Yanukovych team's apparent reversal on the price rollback/moratorium law may illustrate a victory of practicality over political posturing. Even without a rollback, a slight reduction of residential prices for the balance of 2006 could bring Yanukovych a political payoff. It would come, however at a time when state oil and gas monopoly NaftoHaz is facing serious financial difficulties. Lower residential prices would mean NaftoHaz will have to rely as much as possible on domestic natural gas production for household and municipal customers, but they will have to cover some with imports. NaftoHaz will also have to ensure that the wellhead price for domestic gas remains low, thus impeding prospects for investment and modernization in the sector.

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